Information Request DTE-1-3

Refer to Exhibit NSTAR-GOL at 14, lines 8-10. Please explain the credit to the SOS Supplier for the sale of gas. Please cite to the contract and describe how this credit functions. Please provide a hypothetical example of this process.

Response

Attachment DTE-1-3(a) **(CONFIDENTIAL)** contain the Standard Offer Service ("SOS") Supplier Agreement under which the Supplier purchases the electricity "products" that NSTAR Electric is obligated to purchase under its existing PPAs for a fixed transfer price. The Supplier sells back to NSTAR Electric SOS service. Under the definition of PPA Products in the SOS Agreements, the Supplier is entitled to "credits, benefits, payments or market products to the extent provided by the PPA Counterparty."

From time to time OSP has sold its natural gas supply and consequently reduced the generation output from the facility in order to maximize revenue from either the sale of gas or power. The revenues from the sale of gas were credited by OSP to NSTAR Electric under the terms of the OSP Agreement, which is a cost-of-service-type agreement. The Company in turn flowed through the full amount of the credits to customers through the reconciliation of its transition charges. However, the Company did not provide the supplier with any credit associated with the gas layoffs.

During the January 2004 cold snap OSP sold its gas and the SOS Supplier had to replace the power that the facility would otherwise have generated at high prices. This highlighted the long-standing OSP gas layoff practice and the SOS supplier requested compensation consistent with the SOS Supplier Agreement. Although the SOS supplier was entitled to a portion of the credits that had been previously passed on entirely to customers under the terms of the SOS Supplier Agreement, the SOS Agreement does not specify how these credits are to be applied. The supplier asserted that it was entitled to the full amount of the credit from the gas sale without any deduction for the cost of the gas and proposed a methodology that would have called for a payment by NSTAR Electric to the Supplier of $14.7 million through April 2004 (see Attachment DTE-1-3(c) **CONFIDENTIAL**). As part of negotiations with the supplier, the parties agreed that it was appropriate to account for both the cost of gas and the differential between replacement power costs and the amount the SOS Supplier would have paid NSTAR Electric under the SOS Supplier Agreement had the power been generated.

NSTAR Electric and the SOS Supplier executed a Supplemental Agreement (Attachment DTE-1-3(b) **CONFIDENTIAL**), whereby NSTAR Electric agreed to pay the SOS Supplier $11.139 million as a settlement for the period January 1, 2002 to April 30, 2004 as a result of gas lay off practices (see Attachment DTE 1-3(d) **CONFIDENTIAL CD-ROM**). Over this same period credits of $ 26.7 million had been passed through to customers as part of the transition charge. The amounts OSP has credited by year against capacity costs are provided in response to Information Request AG-1-12 and Information Request AG-1-19 which for NSTAR Electric's 23.5% share of OSP amount to $10.9 million, $10.8 million and $5.0 million for 2002, 2003 and 2004 through April. This settlement therefore represents approximately 41.6 percent of the revenue credited to the customers as a result of gas layoff practices during this time period.

In addition, the parties agreed to a formula for crediting the SOS Supplier as a result of gas layoff practices and the replacement of other PPA Products going forward. The formula calculates the amount of power that would have been generated but for the gas layoff and multiplies that amount by the difference between the Day Ahead LMP price and what the Supplier would have paid under the SOS Supplier Agreement (effectively keeping the SOS Supplier whole). The formula also deducts for scheduled outages whereby power would not have been generated and therefore no compensation is required to the SOS Supplier. For the period from May through the end of 2004, when the SOS Supplier Agreement terminates, the estimated net revenue from gas layoff practices that would be attributable to the SOS Supplier is $0.793 million per month. This amount appears on Exhibit NSTAR-GOL-5, page 4 of 5, line 1A. The $11.1 million settlement payment was made in June 2004 which when added to the $0.793 million for that month equals $11.932 million which is the amount appearing on line 1A for June. Since the initial filing was submitted, actual amounts for May and June are now available, i.e., $0.809 million and $0.626 million respectively.

On July 1, the OSP units transferred to TransCanada under the terms of the Purchase and Sale Agreement. Pursuant to the terms of the SOS Supplier Agreement, section 4.3(e), and the terms of the Supplemental Agreement, section 4(c), the SOS Supplier was credited with replacement PPA Products, the costs for which are contained in Exhibit NSTAR-GOL-6, page 4 of 6, line 6. Once the OSP units are transferred from the SOS Supplier and replaced with PPA products, there is no further consideration due the SOS Supplier for gas lay off practices. Therefore the monthly amounts from July through December 2004 on Exhibit NSTAR-GOL-5, page 4 of 5, line 1A are relevant only for the purposes of comparing the new deal versus the status quo and do not represent amounts due to the SOS Supplier.